

## Home Structure

### ▪ 86 Percent Say Likely Under-Insured

Agents reported that having insufficient coverage to rebuild a home after a total loss was one of the most common and most serious problems of under-insurance. Eighty-six percent said it was a likely problem, and forty-one percent said it was the most serious problem. These statistics compare with 89 percent and 32 percent, respectively, for umbrella liability. (See chart below.)

The extent of this problem is supported by an annual study conducted by MSB, a leading worldwide provider of building cost data and estimating technology for the property insurance industry. Its 2009 study estimated that 64 percent of American homes are undervalued for the purpose of insurance by an average of 19 percent.<sup>6</sup>

The problem may be worse for affluent consumers who own luxury properties, especially if they insure their home with a mass-market policy. The reason is that standard industry tools that estimate the cost of rebuilding a home may not adequately value the higher quality materials, superior craftsmanship, and unique architectural features in luxury, custom-built, or historic homes. In addition, affluent consumers are more likely to have expanded the size of their home or created lavish entertainment centers in their basement. And, like most customers, they forget to tell their insurance agent.

The problem of undervaluation becomes clear when the home is destroyed. Suddenly, the homeowner discovers that it costs far more to rebuild the home than the coverage limit in the policy. While mass-market policies may provide a buffer of 20-25 percent above the coverage limit, it is often not enough—especially when losses are caused by a natural disaster affecting a large number of homes. The increased demand for local building materials and labor can easily outpace supply and drive costs higher than usual.

The problem can be solved by seeking policies from carriers that specialize in insuring high-value homes. These policies offer a kind of coverage known as “full replacement cost,” which promises to fully rebuild the home with similar quality materials and craftsmanship no matter how much it costs in relation to the coverage limit in the policy. In effect, this coverage shifts the responsibility for properly estimating the cost of replacing the home to the insurance company. Therefore, the carriers will often send an expert to the home to document its features and estimate the replacement cost. The visit also gives the expert a chance to suggest ideas for better protecting the family and the home.

While mass-market policies may provide a buffer of 20-25 percent above the coverage limit, it is often not enough, especially when losses are caused by a natural disaster affecting a large number of homes.

